International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

20 March 2024

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Our Ref: 2024/O/C1/IASB/PM/325

RE: Exposure Draft: Financial Instruments with Characteristics of Equity – Proposed Amendments to IAS 32, IFRS 7 and IAS 1

Dear International Accounting Standards Board ("IASB" or "the Board") Members,

The International Organization of Securities Commissions ("IOSCO") Committee on Issuer Accounting, Audit and Disclosure ("Committee 1") thanks you for the opportunity to provide our comments on the Exposure Draft: *Financial Instruments with Characteristics of Equity – Proposed Amendments to IAS 32, IFRS 7 and IAS 1*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 ("members" or "we") seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General observations:

Overall, members are supportive of the intent of the proposed amendments outlined in the exposure draft, which aim to provide greater clarity on the classification requirements for financial instruments as financial liabilities or equity instruments under IAS 32, improve the presentation and disclosure requirements in IAS

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1 and IFRS 7 and enhance consistency in application of these requirements. We believe the IASB's proposed amendments address some of the practice issues that arise in applying IAS 32. We strongly support the expanded disclosure and presentation requirements in IFRS 7 and IAS 1, which we believe promote the integrity of international markets by providing high quality information to investors and other users of financial statements about the characteristics of financial instruments not captured by classification alone, and about the amounts attributable to ordinary shareholders of an entity. However, to help ensure consistent application and to improve transparency, we believe greater specificity, clarity, and guidance is needed in several specific areas. In particular, we want to highlight our response to the proposed amendments related to the effects of relevant laws or regulations (Question 1), which may have a significant impact on the current classification of financial instruments and result in different classification outcomes for identical instruments across different jurisdictions or between entities of the same group that are subject to the laws and regulations of different jurisdictions.

Responses to the Board's Questions:

Question 1—The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)

The IASB proposes to clarify that:

(a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and

(b) a contractual right or obligation that is not solely created by laws or regulations but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response:

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We are supportive of the IASB's intention that classification outcomes be changed only if there is enough evidence that such a change would provide more useful information to investors and other users of financial statements and appreciate the IASB's acknowledgement that it is important to users of financial statements that financial instruments with similar economic substance are classified in a consistent way. We believe the financial reporting outcome of the proposed amendments in paragraph 15A of IAS 32 would be consistent with the IASB's intent in many cases. However, as described further below, we note that the proposed amendments may result in the classification of identical instruments differently in certain circumstances. We have also identified certain other matters for consideration to improve the clarity and transparency of the proposed amendments.

We note that when applying the proposed amendments in paragraph 15A of IAS 32, identical financial instruments may be classified differently from jurisdiction to jurisdiction depending on whether the contractual rights or obligations are already established by local laws or regulations. We believe this difference in classification would not be useful for users, and in fact may be misleading to users since it could result in classification that is not aligned with the economic substance of a financial instrument. We also note the proposed guidance may result in circumstances where an entity with identical financial instruments issued in different jurisdictions may be classified differently in its financial statements. In addition to significant concerns related to these financial reporting outcomes, we believe this may result in application challenges for a parent entity when preparing consolidated financial statements that include subsidiaries subject to the laws and regulations of different jurisdictions. In this regard, we believe the IASB should reconsider the distinctions made in the proposal between provisions arising from laws or regulations as opposed to those arising from contractual provisions to drive consistent classification of substantively similar financial instruments.

Similarly, we note that the proposed amendment in paragraph 15A of IAS 32 may result in certain rights and obligations of financial instruments that are regulated by law in certain jurisdictions being unintentionally disregarded for purposes of classification of the financial instrument. For example, many loans and savings products offered by financial institutions include certain rights and obligations that are regulated by law (e.g., duration, amount, and repayment) in certain jurisdictions and therefore may or may not be explicitly included in the terms of the contract. If these rights and obligations regulated by law are disregarded in the classification determination, we believe some financial institutions would be required to classify substantially all of their financial instruments as equity under the proposed amendments. We believe that this would not be consistent with the IASB's intent and note that such reclassifications could significantly impact other areas of the financial statements, such as existing hedging relationships. As such, because contracts are generally grounded in the laws and regulations of a specific jurisdiction, we strongly

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believe that an entity should consider rights and obligations of financial instruments regulated by laws and regulations, irrespective of whether they are explicitly included in the contract, for purposes of classification. We therefore suggest the IASB provide additional application guidance to explain how the proposed amendment in paragraph 15A of IAS 32 should be applied to financial instruments that are regulated by the laws of a jurisdiction or revise the proposed amendments to provide additional clarity.

We also note the IASB Discussion Paper, *Financial Instruments with Characteristics of Equity,*[1] raised issues relating to contractual obligations that may be introduced through a mechanism other than a contract (such as those established by statutory or regulatory requirements) that were not addressed in the proposed amendments. For example, laws or regulations in some jurisdictions obligate some entities to offer to purchase the non-controlling interests when acquiring a controlling interest (i.e., mandatory tender offers) such that, in effect, a put is embedded into the non-controlling equity interests. In this regard, we suggest the IASB consider providing application guidance that addresses mandatory tender offers to provide greater clarity on the accounting treatment.

We note the IASB included in BC21 some practical examples of financial instruments that have given rise to questions in practice about whether and how relevant laws or regulations affect the classification of a financial instrument. We suggest the IASB consider providing an illustrative example consistent with the example provided in BC21(b), which we believe would help support consistent application of the standard.

Additionally, we note that the term “laws or regulations” is not defined in IAS 32. We are aware that some jurisdictions have formally published prudential guidelines that may not technically be considered laws or regulations, but are akin, in substance, to such and regarded accordingly. We suggest that the IASB consider providing additional clarity by acknowledging in the Basis for Conclusions that the term “laws or regulations” is not defined, and an entity will therefore need to consider in its assessment the specific legal and regulatory environment, including the relevant prudential environment.

Finally, we also believe there may be practical difficulties in applying the amendments as proposed, particularly those in paragraph 15A of IAS 32 when determining whether an enforceable contractual right or obligation is in addition to those created by relevant laws or regulations of a jurisdiction. These difficulties may arise because of evolving legal and regulatory frameworks and different interpretations of whether a contractual right or obligation is enforceable by laws or regulations and is in addition to those created by relevant laws or regulations (e.g., mandatory tender offers). We believe these difficulties increase

[1] IFRS Standards Discussion Paper: Financial Instruments with Characteristics of Equity (June 2018).

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the importance of disclosures to help investors and other users of financial statements understand an entity's assessment of relevant laws and regulations in applying paragraph 15A of IAS 32.

The IASB's proposed amendments to IFRS 7 require expanded disclosure of information about the terms and conditions of a financial instrument that determine its classification as a financial liability or an equity instrument on initial recognition, but do not include required disclosures related to relevant contractual rights and obligations of financial instruments that were not considered in the classification of a financial instrument, or its component parts, based on an entity's assessment of enforceability and relevant laws and regulations. In this regard, we suggest the IASB consider expanded disclosure requirements in IFRS 7 to improve transparency in a way that enables investors and other users of the financial statements to understand the nature of all enforceable contractual rights or obligations that could affect the nature, amount, timing, and uncertainty of cash flows.

Question 2—Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)

The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

(a) fixed (will not vary under any circumstances); or
(b) variable solely because of:
- (i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or
- (ii) passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C).

The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)).

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> The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D).
>
> Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals.
>
> Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response:

Overall, members support the IASB's efforts to provide additional guidance on whether a financial instrument meets the 'fixed-for-fixed' condition in paragraph 16 of IAS 32 to be classified as an equity instrument. We believe the proposed amendments address certain practice questions and will help improve consistency in application of the standard. However, we believe the IASB should provide additional guidance and application guidance in the areas of the proposed amendments described below to provide greater clarity in application of the standard.

We believe that there may be practical difficulties in applying the concepts in paragraph 22C of IAS 32 without additional explanations in the illustrative examples or educational materials. For example, we note that the proposed amendments in paragraph 22C(b)(iii) of IAS 32 would require a passage-of-time adjustment to be analysed using a present value calculation to assess whether the difference between the amount of consideration to be paid or received on each settlement date represents only compensation proportional to the passage of time. We note that IE79 of IAS 32 refers to an assessment of whether different conversion ratios represent compensation proportional to the passage-of-time but does not explain how an entity would make this determination. In this regard, we suggest the IASB consider providing additional explanations and/or educational materials to provide greater clarity and help ensure consistent application of the standard.

We are supportive of the IASB's proposed amendments to include paragraph AG27A(b) of IAS 32. We believe the proposed amendments help clarify situations in which the 'fixed-for-fixed' criterion is met when a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments. However, we believe the IASB should consider providing further clarification as to whether

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the approach described in paragraph AG27A(b) is the same when a derivative gives one party a choice of settlement between two or more equity instruments of different entities (e.g., parent and subsidiaries) to help ensure consistency in application.

Additionally, we note that paragraph IE62 and IE63 of IAS 32 provides an example of an entity that issues a convertible bond in foreign currency units in which the bondholder has the option to convert the bond into the entity's own shares and that the foreign currency exchange rate is variable in relation to the entity's functional currency. We suggest the IASB clarify whether the fixed-for-fixed condition would be met if the foreign exchange rate between the entity's functional currency and the foreign currency were fixed.

Lastly, we are also supportive of the IASB's proposed amendments to include paragraph 22D in IAS 32. However, we believe the IASB should consider specifying in the guidance that a contract that will or may be settled only by the exchange of a fixed number of one class of an entity's own nonderivative equity instruments for a fixed number of another class of the entity's own non-derivative equity instruments is an equity instrument because the entity is not using its own equity instruments as currency as described in paragraph BC60(b).

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

The IASB proposes to clarify that:

(a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).

(b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).

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(c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).

(d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).

(e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery:

> (i) the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability.
> (ii) any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C).

(f) written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled—consideration is exchanged for own equity instruments—are required to be presented on a gross basis (paragraph AG27D).

Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response:

Members generally agree with the IASB's proposed amendments relating to obligations to purchase an entity's own equity instruments, including the initial recognition of the obligation to redeem an entity's own equity instruments. We believe the clarifications to paragraph 23 of IAS 32 will help to reduce diversity in practice and improve comparability, and that they are consistent with current requirements in IAS 32, IFRS 9, and IAS 1. Additionally, we believe the proposed amendments in paragraph AG27B of IAS 32 will

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result in consistency with paragraph B96 of IFRS 10, which requires the carrying amount of non-controlling interests to be adjusted only if the proportion of equity held by non-controlling interest holders' changes. However, some members have the following specific concerns with the proposed amendments as drafted.

Some members do not agree with the IASB's decision to not reconsider the 'gross presentation' requirement in paragraph 23 of IAS 32 for a contract that contains an obligation for an entity to purchase its own equity instruments. These members believe an entity should account for this type of contract as a stand-alone derivative (i.e., no reduction in equity) because it contains an obligation for the entity to transfer cash or other assets and a right for the entity to receive its own, or a subsidiary's, equity instruments, consistent with the alternative view of Mr. Uhl described in paragraphs AV1-AV4.

Some members do not agree with the proposed amendments in paragraph AG27B of IAS 32 to require the removal (i.e., debit) of the amount of a financial liability from a component of equity other than non-controlling interests or issued share capital upon initial recognition of an obligation to redeem an entity's own equity instruments if the entity does not yet have access to the rights and returns associated with ownership of the equity instrument to which the obligation relates. These members believe recognition of the debit against the parent's ownership interests would double-count the non-controlling interests subject to the contract for the reasons described by some stakeholders in BC77. These members acknowledge the reasons described in BC78 as to why the IASB does not agree the proposed amendments would result in double-counting. However, in their view, the proposed amendments understate the controlling interests' claim on the entity's net assets. These members suggest the IASB not make a distinction on recognition of the debit within equity because it will add complexity and not improve the understandability of the financial statements.

Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)

The IASB proposes to clarify that:

(a) some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components (paragraphs 25 and 32A);

(b) the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would not take into

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account the probability and estimated timing of occurrence or non-occurrence of the contingent event (paragraph 25A);

(c) payments at the issuer's discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero (paragraphs 32A and AG37);

(d) the term 'liquidation' refers to the process that begins after an entity has permanently ceased its operations (paragraph 11); and

(e) the assessment of whether a contractual term is 'not genuine' in accordance with paragraph 25(a) of IAS 32 requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event occurring (paragraph AG28).

Paragraphs BC94–BC115 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response:

We agree with the IASB's proposed amendments to clarify the classification requirements for financial instruments with contingent settlement provisions. We believe the proposed amendments are aligned with current practice and the current requirements in IAS 32. However, we suggest the IASB consider the inclusion of an illustrative example or educational materials to provide additional clarification on the application of the term 'liquidation' since the determination of when an entity has permanently ceased its operations may involve significant judgement depending on the laws and regulations of a jurisdiction. Some members identified certain other matters for consideration.

We note that BC96 expresses the IASB's intent that an entity applies the requirements in paragraph 25 of IAS 32 to identify contingent settlement provisions as possible liability components of a financial instrument. Some members believe the proposed addition of "the instrument (or a component of it)" to paragraph 25 does not sufficiently clarify the IASB's intent because a component or a compound financial instrument is not specifically defined in IAS 32. These members believe language aligned with BC96

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should be included in paragraph 25. For example, the third and fourth sentences of paragraph 25 could be revised to read, *"A contingent settlement provision that causes the issuer to not have the unconditional right to avoid delivering cash or another financial asset (or otherwise settling the instrument in such a way that would be a financial a liability) is a liability component of the instrument and would be separately accounted from an equity component. Therefore, the instrument (or a component of it) would be a financial liability of the issuer unless:"*

The IASB may also want to consider whether or not the reference to an option to convert by the holder in paragraph 29 of IAS 32 should be clarified to be an example rather than the only instance in which componentization might be suggested to be applied. This could help clarify that componentization is intended to be considered when a liability and equity component exist in a single instrument. Some members observe that in addition to the proposed measurement guidance included in paragraph 25A of IAS 32 for contingent settlement provisions, the guidance in paragraph 23 of IAS 32 also provides the initial and subsequent measurement requirements for an entity's obligation to purchase its own equity instruments for cash or another financial asset initially and subsequently at the present value of the redemption amount with any gains or losses recognized in profit or loss. Therefore, these members believe the IASB should consider a revision to the beginning of paragraph 31 of IAS 32 to read, *"Except as stated in paragraph 23 and 25A…."* This is because a compound financial instrument may include a liability component that requires measurement in accordance with paragraph 23 of IAS 32 as well.

Lastly, some members indicated that the assessment of whether a contractual term is 'not genuine' for contingent settlement provisions requires judgement based on specific facts and circumstances and impacts whether a financial instrument should be classified as a liability or includes a liability component. In this regard, these members suggest the IASB consider explicit disclosure requirements to describe the specific facts and circumstances considered by an entity when a contractual term is determined to be 'not genuine' in applying paragraph 25(a) of IAS 32 and such determination is material to the financial statements, to improve transparency for investors and other users of the financial statements.

Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)

The IASB proposes:

(a) to clarify that whether an entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability)

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depends on the facts and circumstances in which shareholder discretion arises. Judgement is required to assess whether shareholder decisions are treated as entity decisions (paragraph AG28A).

(b) to describe the factors an entity is required to consider in making that assessment, namely whether:

(i) a shareholder decision would be routine in nature—made in the ordinary course of the entity's business activities;
(ii) a shareholder decision relates to an action that would be proposed or a transaction that would be initiated by the entity's management;
(iii) different classes of shareholders would benefit differently from a shareholder decision; and
(iv) the exercise of a shareholder decision-making right would enable a shareholder to require the entity to redeem (or pay a return on) its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) (paragraph AG28A(a)–(d)).

(c) to provide guidance on applying those factors (paragraph AG28B).

Paragraphs BC116–BC125 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response:

Members generally agree with application guidance in paragraph AG28A of the proposed amendments to IAS 32.

Members that agree with the proposed amendments acknowledge that the principles-based approach to the assessment of whether shareholder decisions are treated as entity decisions will help to resolve some practice questions and improve consistency. However, these members believe this determination will continue to require significant judgement because of the numerous permutations of shareholder compositions and the constantly evolving nature of corporate governance structures. In this regard, these members suggest the IASB consider providing additional application guidance and/or illustrative examples to help entities apply the factors in paragraph AG28A(a)–(d) of IAS 32 consistently. For example, the IASB could provide additional clarity through application guidance that provides factors that may evolve over

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time and result in an assessment that a decision of shareholders is no longer in their capacity as holders of the financial instrument and should be treated as an entity decision.

Other members believe the assessment of whether shareholder decisions are treated as entity decisions should consider, as a primary factor, the objective of financial reporting, which is focused on providing information to investors and other users of the financial statements. These members believe that based on that objective, investors should generally not be considered part of the group. However, these members acknowledge that the assessment may still require judgment, particularly when investors are members of management or the board of directors.

Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)

The IASB proposes:

(a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition, unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).

(b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:

(i) reclassify the instrument prospectively from the date when that change in circumstances occurred.
(ii) measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.
(iii) measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).

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(c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).

Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.

Response:

Members generally agree with the IASB's proposed amendments to clarify reclassifications of financial liabilities and equity in paragraphs 32B–32D and AG35A of IAS 32. We believe the proposed amendments will help address questions that often arise in practice on whether IAS 32 permits or requires reclassification after initial recognition when there has been no modification to the contract. We are not aware of any practical difficulties that could arise from the prospective reclassification when a change in circumstances occur.

However, some members noted a perceived inconsistency between the prohibition of reclassification of a financial liability to an equity instrument when the contractual terms become, or stop being, effective with the passage-of-time and the proposed disclosure requirement when this occurs in paragraph 61D of IAS 7. These members believe that if disclosure is considered useful for investors and other users of the financial statements, the reclassification requirements in paragraph 32B of IAS 32 should be consistent with that notion and allow for reclassification in this circumstance.

Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)

The IASB proposes:

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(a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1).

(b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7.

(c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement.

(d) to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the entity's performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period.

(e) to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A).

The IASB proposes to require an entity to disclose information about:

(a) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B);

(b) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H);

(c) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F);

(d) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and

(e) instruments that include obligations to purchase the entity's own equity instruments (paragraph 30J).

Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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Do you agree with the proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response:

Members strongly support the expanded disclosure requirements provided in the proposed amendments to IFRS 7 for financial instruments. We note the expanded disclosure requirements include financial instruments classified as equity which have historically been less extensive than those classified as liabilities. Therefore, we support the proposed amendments in paragraph 30 of IFRS 7 and would be supportive of the IASB's efforts to continue to expand the disclosure requirements for financial instruments classified as equity as well. We believe the additional disclosures will improve transparency by enabling investors and other users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date. However, as discussed in our responses to Question 1, Question 4, and Question 8, we believe additional disclosure requirements in certain areas would improve the transparency of information provided to investors and other users of the financial statements.

In addition, some members note that the objective of the disclosures for financial instruments with both financial liability and equity characteristics includes how the terms and conditions of the instruments affect the nature, amount, and uncertainty of their cash flows. However, the disclosure requirements related to these instruments do not appear to require the entity to provide information about the timing and uncertainty of the cash flows. One example may be a perpetual bond that provides the issuer with a right to defer interest payments indefinitely. The disclosed terms and conditions of the instrument may not be meaningful to investors when determining the timing and uncertainty of cash flows unless there is a requirement to either disclose the conditions in which the entity would expect to defer those payments or provide an estimate of the timing of these payments. The same would hold true for a perpetual bond with a call option in which the entity expects to call the bond when certain conditions exist. These members believe that to meet the disclosure objective, a requirement to disclose the estimated timing and uncertainty of cash outflows according to the terms and conditions of the contract should be required, for example, by amending paragraph 30D. These members also believe the example in IG14E should be expanded to illustrate the estimate of expected cash outflows like other debt arrangements.

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Question 8—Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)

The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that:

(a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54);

(b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B);

(c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and

(d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107).

Paragraphs BC246–BC256 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent give rise to any practical difficulties in determining the required amounts? If so, please describe the possible difficulties and specify areas in which further guidance would be helpful.

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Response:

Members generally agree with the IASB's proposed amendments to IAS 1 to require an entity to present additional information about amounts attributable to ordinary shareholders. We believe this information will improve transparency by helping investors and other users of the financial statements evaluate the ordinary shareholders' value and understand how the proceeds will be distributed on the sale of a business.

To support understandability for investors and other users of the financial statements, we suggest the IASB consider explicit disclosure requirements that provide information on an entity's distinction between "ordinary shareholders of the parent" and "other owners of the parent." We believe that understandability of this distinction is important to the IASB's objective of increasing transparency of the information presented.

Question 9—Transition (paragraphs 97U–97Z of IAS 32

The IASB proposes to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if the entity chooses or is required to present more than one comparative period in its financial statements.

For an entity already applying IFRS Accounting Standards, the IASB proposes:

(a) to require the entity to treat the fair value at the transition date as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) for the entity to apply the effective interest method in IFRS 9 Financial Instruments retrospectively (paragraph 97X);

(b) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application (paragraph 97W);

(c) to require the entity to disclose, in the reporting period that includes the date of initial application of the amendments, the nature and amount of any changes in classification resulting from initial application of the amendments (paragraph 97Z);

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(d) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8 (paragraph 97Y); and

(e) no specific transition requirements in relation to IAS 34 Interim Financial Reporting for interim financial statements issued within the annual period in which the entity first applies the amendments.

For first-time adopters, the IASB proposes to provide no additional transition requirements.

Paragraphs BC262–BC270 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to apply the proposed amendments retrospectively give rise to any other cases in which hindsight would be necessary? If so, please describe those cases and the circumstances in which the need for hindsight would arise.

Response:

Members agree with the IASB's proposal to require entities to apply the amendments retrospectively with restatement of the most recent comparative information. However, we believe investors would benefit from a requirement for an entity to restate all comparative information the entity presents, rather than only restating one comparative period in its financial statements.

Question 10—Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])

The IASB proposes amendments to the draft Accounting Standard [IFRS XX Subsidiaries without Public Accountability: Disclosures], which will be issued before the proposals in the Exposure Draft are finalised.

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[IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement and presentation requirements in IFRS Accounting Standards with reduced disclosures.

The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures.

Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258.

Response:

Members agree with the IASB's proposed amendments to the disclosure requirements for eligible subsidiaries for the reasons described in BC258 – BC261.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Jonathan Wiggins, Chair of the Accounting Subcommittee of Committee 1 at +1 202-551-3694 or me. In case of any written communication, please mark a copy to me.

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Yours sincerely,

Paul Munter

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